

# SITLA and the New Trust Fund Office: Working Together as One Trust

**Aaron C. Garrett**  
**School Children's Trust Section, USOE**  
**Beneficiary Presentation**  
**May 15, 2014**



# BUT FIRST!



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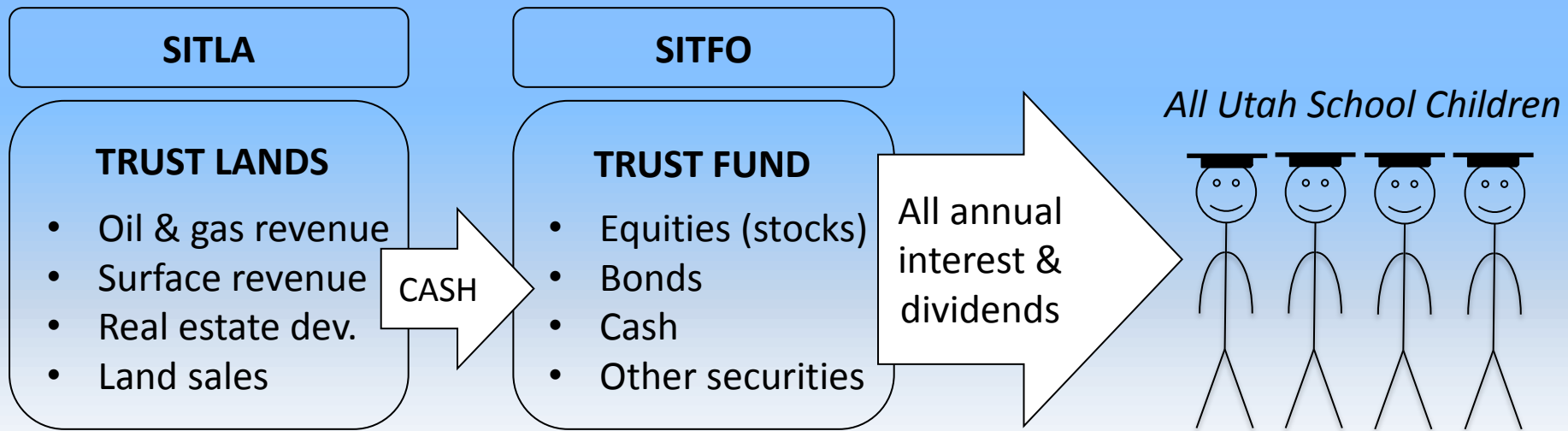


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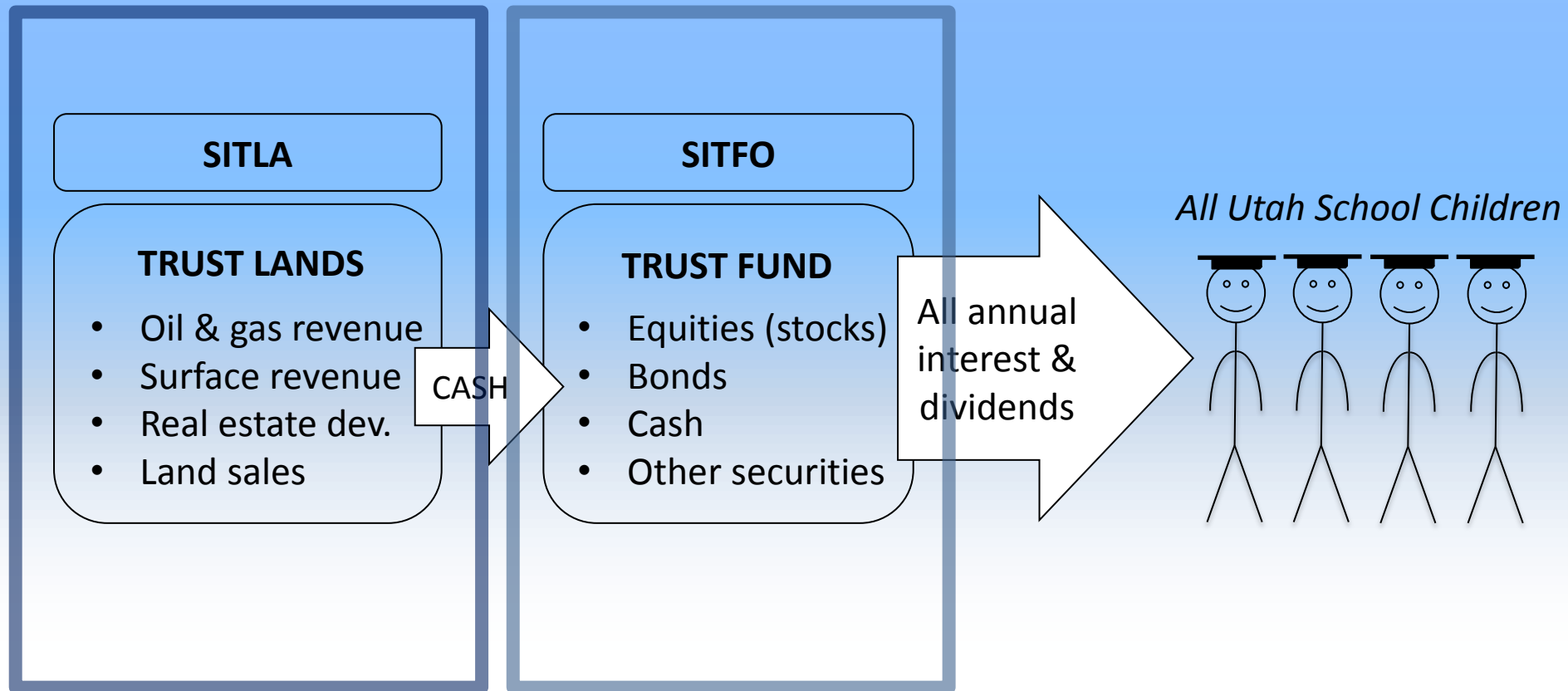
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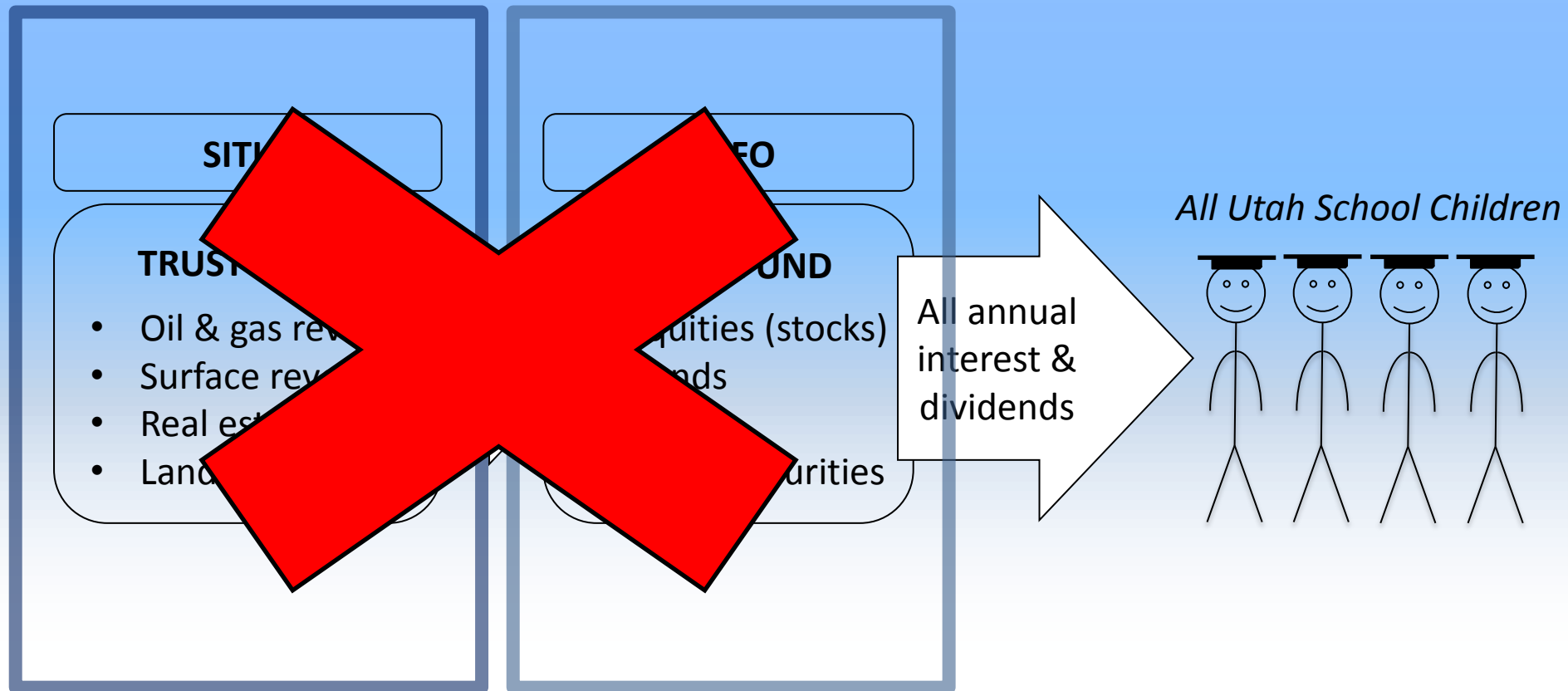
- Legislature passed and governor signed HB 168, creating the School and Institutional Trust Funds Office (SITFO)
- Board Nominating Committee has met twice
- Interviews begin next week, nominees to State Treasurer by end of month
- Board seated end of June/early July











# ONE TRUST

## SITLA

### TRUST LANDS

- Oil & gas revenue
- Surface revenue
- Real estate dev.
- Land sales

CASH

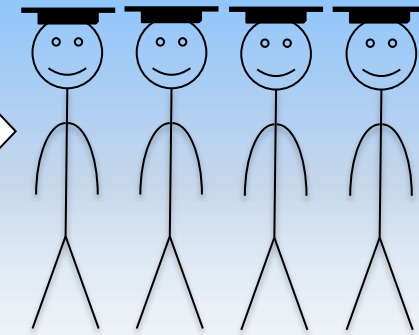
## SITFO

### TRUST FUND

- Equities (stocks)
- Bonds
- Cash
- Other securities

All annual  
interest &  
dividends

*All Utah School Children*



# **DISTRIBUTION POLICY—POTENTIAL CHANGES**

- SITFO Board will consider distribution policy and recommend changes.

# Theme: One Trust



# Theme: One Trust

- Beneficiaries want to encourage SITLA and SITFO to share information and work together



# Theme: One Trust

- Beneficiaries want to encourage SITLA and SITFO to share information and work together
  - Staff Level



# Theme: One Trust

- Beneficiaries want to encourage SITLA and SITFO to share information and work together
  - Staff Level
  - Board Level





# Board Level



# Board Level

- Educational Resource—First experience with Trust Lands



# Board Level

- Educational Resource—First experience with Trust Land
- Encourage



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- Educational Resource—First experience with Trust Land
- Encourage
  - Coordination of Investments



# Board Level

- Educational Resource—First experience with Trust Land
- Encourage
  - Coordination of Investments
  - Information Sharing between Agencies



# Agency Level



## Agency Level

**You have valuable insights and experience  
to share with the CIO and staff.**



## Agency Level

- Make yourselves open and available to the new CIO and staff





## Agency Level

- Make yourselves open and available to the new CIO and staff
  - Outside of State Government



## Agency Level

- Make yourselves open and available to the new CIO and staff
  - Outside of State Government
  - Without a significant history in Trust Lands



## Agency Level

- Educate SITFO on the agency's projects and investments



## Agency Level

- Educate SITFO on the agency's projects and investments
  - Allows SITFO to account for your transactions in its decisions



## Agency Level

- Educate SITFO on the agency's projects and investments
  - Allows SITFO to account for your transactions in its decisions
  - Allows investment/financial expertise to improve your decisions



## Agency Level

- Brainstorm Opportunity for Improvement



## Agency Level

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  - How did you interact (or not interact) with Treasurer's Office?



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  - How can that be improved?





## Agency Level

- Brainstorm Opportunity for Improvement
  - How did you interact (or not interact) with Treasurer's Office?
  - How can that be improved?
    - Opportunity for a new beginning we don't often get



## Agency Level

- Recommend regular meetings between agencies to discuss trust matters and build rapport

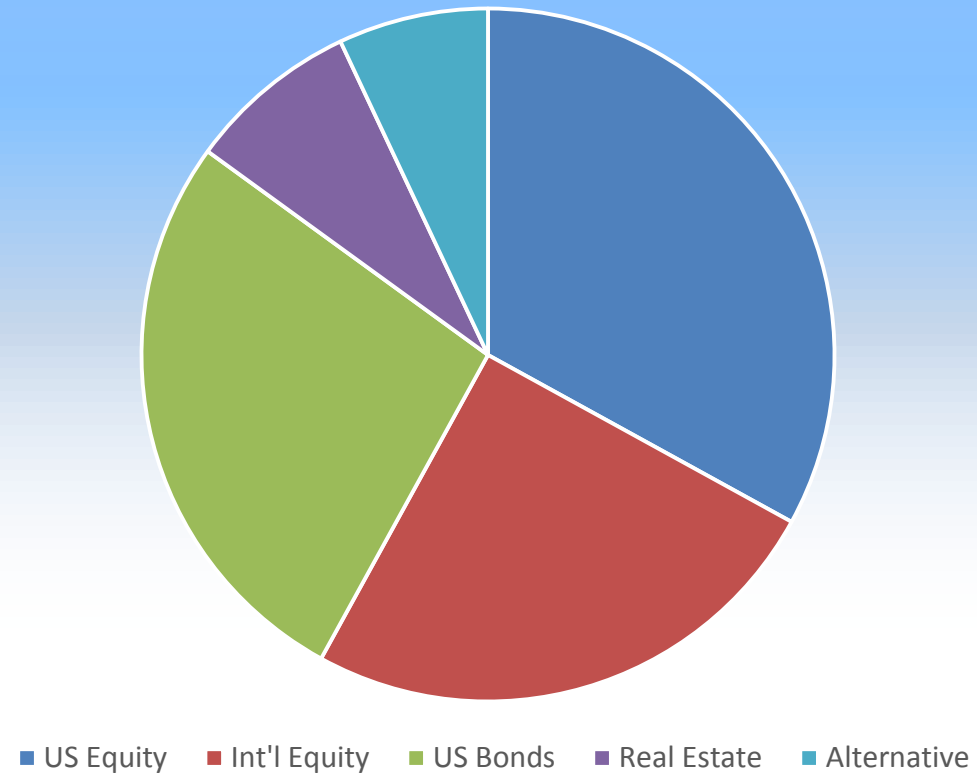


# But Why?



# But Why?

## Asset Allocation



## But Why?

- SITFO board will be setting an asset allocation policy
- This policy should be informed by SITLA's properties and activities
- Allows for a truly diversified portfolio



# But Why?

- Idaho Endowment Fund Reform Progress Report, 2013



# But Why?

- Idaho Endowment Fund Reform Progress Report, 2013
  - Land managers and fund managers should work together to “develop[] an asset allocation policy from an investment perspective that would include all Land Trust assets, both lands and the financial assets.”



# But Why?

- Idaho Endowment Fund Reform Progress Report, 2013
  - Asset allocation doesn't just effect actions by fund managers: would have implications for:
    - Investment and deployment of the Land Bank funds
    - procedures and considerations involving land swaps
    - purchase and management of in-state commercial property





## But Why?

- Idaho Endowment Fund Reform Progress Report, 2013
- -"Small changes can **materially advance** the goals of the reform, and might lead to the Land Board being able to consider **a wider range of options** for the management of the land and financial assets, assure that the **best decisions** are being made for the **Trust as a whole . . . .**"
- Avoid a "siloed" mentality that can occur when land management is separated from financial management.



# Example: Real Estate

- SITLA has 10s to 100s of millions of dollars in real estate development projects, present and future



# Example: Real Estate

- SITLA has 10s to 100s of millions of dollars in real estate development projects, present and future
- All varieties
  - Single family homes
  - Multi-Family
  - Commercial
  - Industrial
  - You name it



## Example: Real Estate

- SITFO may be investing up to hundreds of millions of dollars in real estate, as well.



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## Example: Real Estate

- SITFO may be investing up to hundreds of millions of dollars in real estate, as well.
- Vehicles are weighted by asset type and geography
  - Avoid over-weighting a particular type of asset
  - Avoid the Trust competing with itself



# Other Examples

- Oil & Gas, Minerals





# Other Examples

- Oil & Gas, Minerals
  - Trust already has great risk exposure through SITLA's activities
  - Fund manager should be aware of this to avoid becoming overexposed to oil and gas



# Other Examples

Correlation Matrix: Daily % Change Correlation Over Last Ten Years															
Ticker	S&P 500	C. Disc.	C. Stap	Energy	Finan.	H Care	Indust.	Mater.	Tech	Telcom	Utilit.	Oil	Gold	Dollar	L Bnd
S&P 500	1.00	0.94	0.85	0.81	0.88	0.86	0.94	0.89	0.90	0.78	0.76	0.24	-0.01	-0.17	-0.37
Cons. Disc.	0.94	1.00	0.81	0.68	0.82	0.78	0.90	0.82	0.85	0.72	0.67	0.16	-0.07	-0.12	-0.34
Cons. Stap.	0.85	0.81	1.00	0.65	0.67	0.81	0.78	0.71	0.70	0.69	0.71	0.12	-0.06	-0.10	-0.28
Energy	0.81	0.68	0.65	1.00	0.62	0.66	0.73	0.81	0.66	0.59	0.70	0.48	0.16	-0.28	-0.30
Financials	0.88	0.82	0.67	0.62	1.00	0.68	0.82	0.73	0.72	0.64	0.57	0.16	-0.06	-0.13	-0.31
H Care	0.86	0.78	0.81	0.66	0.68	1.00	0.78	0.71	0.73	0.68	0.69	0.14	-0.04	-0.12	-0.29
Industrials	0.94	0.90	0.78	0.73	0.82	0.78	1.00	0.87	0.84	0.70	0.68	0.21	-0.01	-0.18	-0.37
Materials	0.89	0.82	0.71	0.81	0.73	0.71	0.87	1.00	0.79	0.65	0.67	0.29	0.15	-0.27	-0.35
Technology	0.90	0.85	0.70	0.66	0.72	0.73	0.84	0.79	1.00	0.71	0.63	0.16	-0.04	-0.10	-0.35
Telecom	0.78	0.72	0.69	0.59	0.64	0.68	0.70	0.65	0.71	1.00	0.63	0.12	-0.05	-0.10	-0.25
Utilities	0.76	0.67	0.71	0.70	0.57	0.69	0.68	0.67	0.63	0.63	1.00	0.19	0.02	-0.15	-0.22
Oil	0.24	0.16	0.12	0.48	0.16	0.14	0.21	0.29	0.16	0.12	0.19	1.00	0.29	-0.30	-0.22
Gold	-0.01	-0.07	-0.06	0.16	-0.06	-0.04	-0.01	0.15	-0.04	-0.05	0.02	0.29	1.00	-0.43	0.07
Dollar	-0.17	-0.12	-0.10	-0.28	-0.13	-0.12	-0.18	-0.27	-0.10	-0.10	-0.15	-0.30	-0.43	1.00	-0.05
Long Bond	-0.37	-0.34	-0.28	-0.30	-0.31	-0.29	-0.37	-0.35	-0.35	-0.25	-0.22	-0.22	0.07	-0.05	1.00

- Oil had a .24 correlation with S&P 500 over past 10 yrs (2012)



# Other Examples

Correlation Matrix: Daily % Chg Correlation in 2012															
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S&P 500	1.00	0.90	0.79	0.88	0.91	0.88	0.94	0.90	0.91	0.59	0.51	0.64	0.27	-0.53	-0.62
Cons. Disc.	0.90	1.00	0.72	0.71	0.79	0.78	0.84	0.81	0.83	0.47	0.43	0.53	0.14	-0.37	-0.56
Cons. Stap.	0.79	0.72	1.00	0.66	0.66	0.78	0.71	0.61	0.62	0.62	0.69	0.50	0.17	-0.43	-0.46
Energy	0.88	0.71	0.66	1.00	0.76	0.73	0.81	0.81	0.73	0.52	0.48	0.69	0.32	-0.56	-0.52
Financials	0.91	0.79	0.66	0.76	1.00	0.77	0.83	0.80	0.75	0.55	0.40	0.51	0.23	-0.46	-0.61
H Care	0.88	0.78	0.78	0.73	0.77	1.00	0.81	0.78	0.75	0.57	0.53	0.56	0.25	-0.48	-0.55
Industrials	0.94	0.84	0.71	0.81	0.83	0.81	1.00	0.88	0.82	0.54	0.45	0.59	0.25	-0.52	-0.58
Materials	0.90	0.81	0.61	0.81	0.80	0.78	0.88	1.00	0.83	0.43	0.40	0.61	0.36	-0.52	-0.52
Technology	0.91	0.83	0.62	0.73	0.75	0.75	0.82	0.83	1.00	0.40	0.33	0.59	0.23	-0.44	-0.56
Telecom	0.59	0.47	0.62	0.52	0.55	0.57	0.54	0.43	0.40	1.00	0.54	0.24	0.16	-0.32	-0.30
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Long Bond	-0.62	-0.56	-0.46	-0.52	-0.61	-0.55	-0.58	-0.52	-0.56	-0.30	-0.19	-0.46	-0.06	0.37	1.00

- However, in 2012 correlation was much higher (.64)



# Other Examples

- Capital Expenditures



# Other Examples

- Capital Expenditures
  - Branching out beyond real estate
  - Use SITFO's financial expertise
  - Keep allocations appropriate



IN THE END



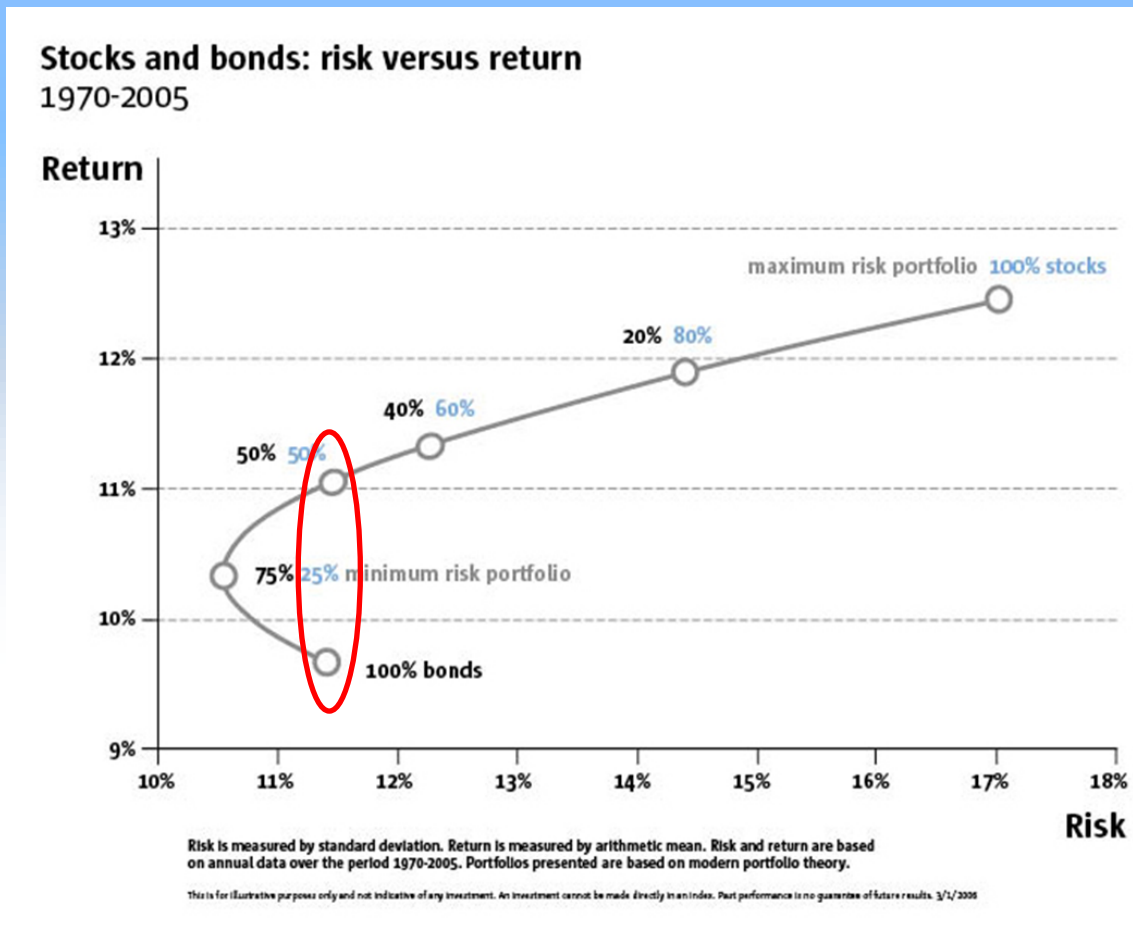
# IN THE END

- All about properly diversifying the Trust.



# Free Lunch

- Diversification is the only “free lunch”





# The End

